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Activist shareholder groups press natural gas drillers on fracking, other concerns

The Associated Press

Post a Comment By MICHAEL RUBINKAM Associated Press

ALLENTOWN, Pa. January 21, 2011 (AP)

Activist shareholder groups want energy companies to do a better job of reducing the risks of hydraulic fracturing, the drilling technique that's unlocked vast stores of previously inaccessible natural gas while raising concerns about environmental contamination.

Investors announced Friday they have filed resolutions with nine oil and gas companies that use hydraulic fracturing, or "fracking," to extract gas from shale formations thousands of feet underground. Critics contend that fracking has the potential to pollute groundwater. The industry says it is safe.

The proposals ask drillers to explain how they plan to manage the potential environmental consequences of fracking, and to go "above and beyond" existing regulatory standards. The resolutions also demand a reduction in the volume and toxicity of chemicals used in fracking; improvements in well construction; and increased recycling of toxic wastewater.

Recent technological advances have allowed drillers to reach gas reserves in the gigantic Marcellus Shale — a rock formation beneath Pennsylvania, New York, West Virginia and Ohio — and other shales in the U.S. for the first time.

Energy companies combine horizontal drilling with fracking, in which millions of gallons of water, along with sand and toxic chemicals, are blasted underground to break up the rock and release the gas. The Environmental Protection Agency is planning a study of its environmental and health consequences.

The activist shareholders say drillers need to become more transparent about their operations and take steps to reduce water, air and soil pollution.

"Oil and gas firms are being too vague about how they will manage the environmental challenges resulting from fracking," New York State Comptroller Thomas DiNapoli, who manages the state's public worker pension fund, said in a statement.

The fund's stake in two of the drillers — Carrizo Oil & Gas Inc. and Cabot Oil & Gas Corp. — is valued at nearly \$35 million. New York, meanwhile, has declared a temporary moratorium on fracking to allow state regulators to issue new guidelines for shale gas extraction.

The risks associated with unconventional shale gas extraction have the potential to negatively impact shareholder value," DiNapoli said. "I urge companies working in this field to share their risk mitigation and management strategies with investors and the public."

The American Petroleum Institute said fracking is already "carefully regulated" by the states.

"These kinds of resolutions could interfere with use of a tried-and-true technology that promises thousands of new jobs and vast and indispensable supplies of clean-burning energy," said API spokesman Reid Porter. "The resolutions also threaten America's retirees who depend on ... the good performance of energy stocks."

A raft of nearly identical shareholder proposals were offered last year. None attracted a majority, though a resolution filed with Williams Cos. — requesting an analysis of the environmental impact of fracking — garnered 42 percent of the vote. Williams subsequently improved its disclosures about the drilling process, the investor groups said.

"I think the goal is to really demonstrate to these companies that there is significant investor concern around these issues and significant investor support for the company being more transparent in how they manage these risks," said Andrew Logan at Ceres, a Boston-based investment network that focuses on environmental sustainability.

Investor groups filing resolutions include the New York pension fund, Domini Social Investments, Trillium Asset

Management, and the Sisters of St. Francis of Philadelphia. The companies they targeted, in addition to Cabot and Carrizo, are Anadarko Petroleum Corp., Chevron Corp., El Paso Corp., Energen Corp., ExxonMobil Corp., Southwestern Energy Co., and Ultra Petroleum Corp.